SUPERMARKET BUSINESS

$7.00
PER COPY

VOLUME 47/NUMBER 1
JANUARY 1992

THE COMING IMPACT OF WHOLESALE CLUBS

SUPERMARKET BUSINESS

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THE 'CLUBS' BECOME AN ISSUE

By Ken Partch, Editor-In-Chief

I have been told that what editorial writers do is come down out of the hills after the battle is over, and then shoot the wounded.

There might be something in that, but from this corner it is usually not because we can't find the right target, or are too inhibited to fire when we do. We've been chided more often than not for opening boxes we didn't know were not supposed to be opened (to mix a metaphor).

In the past, and on many occasions, we have been very critical of exorbitant slotting allowances, and other euphemisms for some of the more odoriferous aspects of the supermarket business. We have not bought the arguments used to justify them, no matter who has uttered them.

But fair is fair. In the cover story of this issue we have tried to give a balanced argument for the pros and cons of wholesale club operations, and related marketing practices. We think the clubs are somewhat over-rated as a serious threat to supermarket retailing, but through our own observations it would seem that the "new business" and "different class of trade" arguments being offered by some manufacturers, to explain their trade and marketing practices, is a dog that really won't hunt, to coin a phrase.

Some years ago, we conducted consumer research in markets served by Price Club, and could discern no great threat to supermarkets because the categories of products and pack sizes were not usually aimed at consumers. Now, based on our latest research and investigation, we think there is a change in format and direction of the clubs that *does* present competition for supermarkets, and a change in brand marketing to clubs that can only be called "unfair."

This is not to say that any form of retailing is not free to challenge the supermarket, whether it is a drug store, discount store, or any other kind of store. After all, that's what the supermarket did to them many years ago. Nobody *owns* a category of merchandise.

But ... the issue of who can buy, and who can sell, whether it is OTC drugs, cosmetics or hammers was settled long ago. Usually, certain classes of trade have been discriminated against for trying to *undersell* a traditional class of trade—not because they *can't* undersell another class of trade. The supermarket itself faced this kind of discrimination in the early years of its operation. Brand manufacturers didn't want to sell to the upstart self-service stores.

Wal-Mart may have opened a can of worms it had no intention of opening.

Whether the founding fathers of the old Super Market Institute would admit it or not today, this was one of the reasons for its establishment. The supermarket needed respectability so that the big brand manufacturers would sell to them. The big chains had all clerk-service stores. Therefore, the largely independent supermarkets felt they needed an organization different from the National Association of Food Chains to represent them, and to provide a place for manufacturers to exhibit products and meet buyers.

Now there is a new kind of discrimination. Manufacturers are saying: "No, you can't get that price, and that deal, and that pack because you represent a *different class of trade*. We're not afraid you'll sell it too cheap. It's just not a supermarket pack." But do they have different customers? "Well, no, but ..."

Is this merchandise being bought for resale or for home use? "Well, it's difficult to say, but this is new business. We even have a different department to handle this business." But many supermarkets have always sold to small foodservice outlets and restaurants, haven't they? Why not let them have these packs if they want them?

Food brokers are going to find themselves up the proverbial creek if they continue to try to paddle in two directions—one for the clubs and one for the retailers. Indeed, brokers are already being put on notice by wholesale and retail buyers. Wal-Mart, already in the club business, must have had some of this in mind when it launched its now famous letter to "principals." But Wal-Mart may have opened up a can of worms it had no intention of opening.

As one wholesaling executive put it to us: "We can't be the policeman. We can't see to it that there really is a level playing field out there. We discovered a vendor who was offering us terms of sale that were clearly not as competitive as he was offering a competing club. We have told this vendor that we will no longer do business with him. But we can't be the cop who sees to it that this is not going on somewhere else. We are putting all our vendors on notice, and all the brokers who call on us."

In a recent pricing study conducted by this magazine, we calculated prices on a unit-price basis for 53 items at Price Club and compared prices of the same items at Super Stop & Shop and Pathmark. Price Club grocery items were 31 percent cheaper than at Super Stop & Shop and 33 percent cheaper than Pathmark.

We also compared prices on 67

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SUPERMARKET BUSINESS Magazine (ISSN 0196-5700) is published monthly by FM Business Publications, Inc., 342 Madison Ave., New York, NY 10173. Telephone: 212-661-2350. Circulated free of charge to grocery retailers and wholesalers. U.S. subscriptions $55 per year. Canada $62 per year. Foreign subscriptions $73 (seamail), $233 (airmail) per year. Single copies $1, except Consumer Expenditures Study (September issue) $12 per copy. (Discount prices available on multiple purchases.)

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All circulation inquiries to: SUPERMARKET BUSINESS, P.O. Box 175, Winchester, MA 01890.

Postmaster: Please send address changes to Circulation Department, Supermarket Business, PO Box 175, Winchester, MA 01890.

operate at no inventory expense. If the goods aren't on consignment, they move fast enough so that there is no credit charge. This helps permit them to operate on very low margins—as low as 9 to 10 percent—overall.

UFO: Let's see. If a chain matches its inventories against its payables ... and then calculates these totals ... at the end of the year you'll probably find that it was able to operate with the slow movers and all so that all the inventory costs came out of cash flow ... it's probably a wash.

SB: Let's go back to those 1,000 or so SKUs for a minute. If these are all selling as cheaply as some we've checked on, how can the supermarket compete?

UFO: Well, again, let's see. First of all, I'll bet that many of those items are not selling as cheaply as you think. Sure, some are very good buys, but I'll bet that many aren't. If you check the unit price, the supermarket will be very close on many items. And if they want, they can get a lot closer. You'll probably find that the real number is more like 450. The supermarket can easily deal with that. Within the items that count—the traditional markdown items—probably 75 percent are unaffected, where a few points of gross margin can easily be raised.

SB: Would you advertise directly against the club?

UFO: No. Just advertise that you have the lowest prices in town, and demonstrate that on those specific items that you know the club is offering. Advertise these for three months. It means some homework, that's all.

SB: Then there's nothing for the supermarkets to worry about?

UFO: Not unless they're too lazy to deal with the problem.

SB: What do you mean?

UFO: Remember the limited assortment stores that everybody was worrying about a few years ago? Did these box stores hurt the supermarket?

SB: No. Not permanently.

UFO: Right. the warehouse stores took care of them. And then the superwarehouse stores took care of the warehouse stores. Did hypermarkets hurt the supermarket?

SB: Not in most markets. But the super warehouse store did

WHO BUYS FROM CLUBS?

SB GOES SHOPPING FOR THE ANSWER

Membership clubs claim that they're supplying local merchants with the basic necessities to operate their business. A sort of cash and carry warehouse for the small businessman.

Neighboring supermarket operators claim that the clubs are really just low cost "retail" warehouses that cut into their sales. As far as they are concerned, when it comes to food, grocery and HBA items, the club shoppers are strictly retail!

Wholesale to the businessman, or retail—which is it? If it's retail, just how much does the club cut into the sales of surrounding supermarkets? How can they fight back?

To look at the consumer side of the club issue, SUPERMARKET BUSINESS conducted a series of exit interviews with shoppers at two membership clubs.

Fifty shoppers were interviewed at the Price Club (operated by Price Co., San Diego, CA) in North Haven, CT, and 50 at a BJ's unit (operated by B.J.'s Wholesale Clubs, Natick, MA) in Fairfield, CT.

The two were chosen because they both have a solid inventory of supermarket items, including grocery, nonfoods and HBA. Additonally, their trading areas overlap slightly, creating maximum impact on area supermakets.

SUPERMARKET BUSINESS talked to people as they were leaving the clubs about their shopping habits; looked at their orders and register receipts; went into the two clubs to examine merchandise and count SKUs; and ran a price comparison between the clubs and their supermarket competition. The results were enlightening. For instance ...

Myth: *The members of the clubs are all business people, and most of the purchases at the club are business related.*

The fact is that the 50 shoppers we interviewed at each club were shopping for themselves. All of the BJ's shoppers we surveyed, and 96 percent at the Price Club, said everything they bought that day was for themselves and their families. This was true of not only the food and grocery items, but the general merchandise as well. Only two people said that even a portion their purchases were to be used by businesses.

Admittedly, interviewers were instructed not to approach those shoppers who appeared to be purchasing quantities that were obviously destined for resale applications. But despite this bias, it would appear that a large portion of the club's sales, especially in the food and grocery categories, are for home consumption.

Even the clubs' membership policies point to their reliance on non-business sales. While membership qualifications and strictness of enforcement differ from club to club, we found a wide range of consumers qualified for membership,usually through occupational affiliations.

Even if strictly enforced, the so-called membership qualifica-

The Club Shopper

Can supermarkets compete with clubs on price? Yes, if they get the same costs on the same packs. Otherwise there can be a 25% to 33% price differential on 1,200 or more SKUs.

	BJ's	Price Club
Everything purchased is for family* use:	100%	96%
How long have you been a member: (mode)	Since It Opened (38%)	4 yrs (24%)
How often they shop club:	Once/Month (30%) Twice/Month (22%) Once/Week (15%) Once/3 Weeks (13%)	Once/Month (32%) Twice/Month (22%) Once/2 Months(15%) Once/Week (12%)
Distance Travelled To Club:	Mean: 17 miles Mode: 20 miles	18 miles 8-10 miles

Statistics are based on exit interviews of 50 customers at each of the 2 clubs. An effort was made to select interviewees who appeared to be shopping for home consumption, and not business purposes

Spending At The Clubs

How Does The Amount You Spent Today Compare With Your Average Club Shopping Trip?

	BJ's	Price Club
Today I spent:		
More	24%(average = +$45)	16% (average = +$114)
Less	28%(average = -$120)	36% (average = -$57)
About the same	48%	48%

The Average Club Shopping Trip

Total Spent & Amount Spent On Supermarket Items

	BJ's		Price Club	
	Total Spent	Supermarket Items	Total Spent	Supermarket Items
Mean:	$177	$131	$144	$105
Average Club Trip				
Less Than $50	—	9%	—	8%
$51 - $75	17%	30	8%	32
$76 - $100	14	11	38	24
$101 - $150	22	23	24	18
$151 - $200	14	7	14	14
Over $200	33	20	16	4

in many markets.

UFO: Yes, but not where there were good supermarket operators who were paying attention to their business. Correct?

SB: But there is a very bad recession now, into its second year. People are watching their pennies.

UFO: Would you base a retailing concept on a premise that the recession will last forever? Remember Edwards? Remember Heartland?

SB: We hear that the present wholesale club store is a far cry from the original Price Club or the Sam's or BJ's. Is that so?

UFO: Never say "store" when you are talking about a club. It's a warehouse or a building or a unit—never store.

SB: Forgive us. But what's so different? We hear about third generation clubs now.

UFO: Well, you know that Price Club was aimed primarily at the small businessman. For some, there seems to be a shift toward the consumer, in terms of pack and SKUs. There's more perishables and more fresh. You may still have to buy a 20-week supply of Gillette Sensor blades, or a two-year supply of Advil, but people seem to be doing it. They're buying quantities of shampoo and mouthwash as if they're drinking it. You need a mastiff to pull the cart with the dogfood in it, and Dr. Doolittle's canaries to carry the birdseed, but somehow consumers are buying the stuff. Will it last?

SB: What about the perishables?

UFO: In some clubs you see more fresh meat, including choice beef, than you do in some conventional supermarkets. The same with deli meats ... up to 60 and 70 SKUs. The refrigerated and frozen foods are multiplying rapidly. Everything from fresh milk and eggs to yogurt, margarine, butter and cheese to salads and juices. There's enough prepared submarines and pizza to stock an entire take-out food department.

SB: So as the supermarket has been driving up its gross margins with labor-intensive service departments, the warehouse club appears to have improved its operations and handling.

UFO: It looks that way.

SB: So is this another example of the supermarket industry moving over, or overlooking

Share Of Average Club Shopping Expenditure Spent On Supermarket Items

	BJ's	Price Club
Mean:	77%	73%
0% - 25%	7%	6%
26% - 50%	17	26
51% - 75%	17	10
76% - 99%	15	14
100%	44	44
Total	100%	100%

Changes In Club Purchases Of Grocery And Food Products Over Past Few Months

	BJ's	Price Club
Purchases increased	40%	20%
Purchases decreased	9	29
Stayed the same	51	51

Average Total Expenditure By The 50 Households Each Month

BJ's	Price Club
$8,811	$6,975

** Based on the average reported expenditure per trip on supermarket products and the average reported number of trips per month by each household.*

Supermarket Items Most Frequently Purchased At The Clubs*

BJ's	Price Club
1. Juice (17)**	1. Pasta (13)
2. Soda (14)	2. Cookies/Crackers (11)
3. Fresh Meat (13)	3. Juice (11)
4. Produce (12)	4. Soups (9)
5. Eggs (10)	5. Deodorant (9)
6. Milk (10)	6. Bread (8)
7. R-T-E Cereals (10)	7. Paper Towels (8)
8. Cheese (7)	8. Soda (8)
9. Toilet Paper (7)	9. Frozen Shrimp (8)
10. Cookies/Crackers (6)	10. Chicken (7)
11. Bread (6)	11. R-T-E Cereals (7)
12. Pasta (6)	12. Candy/Gum/Mints (7)
13. Laundry Detergent (6)	13. Toilet Paper (5)
14. Sanitary Napkins (5)	14. Produce (5)
15. Personal Soap (5)	15. Video Tape (5)
16. Candy/Gum/Mints (5)	16. Coffee (5)

** Based on the number of shoppers at each club that purchased the item of the 50 that were interviewed.*

What's In The Price Club?

Observed Number Of SKU's In Various Supermarket Product Categories Available At Price Club In North Haven, Ct.

*** The actual number of shoppers among the 50 interviewees that purchased the item the day of the interview.*

Product Category	# SKU's*
Packaged Baked Goods	23
Packaged Snack Cakes	2
Cookies/Crackers	16
Fresh Bakery	8
Milk	1
Eggs	1
Butter	1
Cheese	30
Yogurt	1
Refrigerated Juices	3
Refrigerated Soups	1
Other Dairy	1
Fresh Meats/Chicken/Bacon	6
Sausage/Deli Meats	19
Frozen Poultry Products	2
Frozen Vegetables	3
Frozen Hor d'oeuvres	3
Frrozen Entrees	13
Frozen Meats	7
Frozen Italian Foods	11
Other Frozen Prepared Foods	29
Frozen Fish/Seafood	15
Frozen Fruit	1
Frozen Juice Concentrates	2
Frozen Breakfast Items	2
Frozen Baked Goods	9
Fresh Produce	23
Baby Needs (Diapers/Formula)	4
Baking Needs	21
R-T-E Cereals	8
Oatmeal	2
Toaster Pastries	1
Candy	28
Chewing Gum	34
Canned Vegetables	12
Canned Fish	13
Canned Mexican Products/Sauces	7
Canned Prepared Foods/Chili	9
Canned Soup	17
Instant Soup/Boxed Meals	5
Canned Meats	5
Canned Fruit	6
Canned & Bottled Juices/Drinks	10
Boxed Drinks	4
Apple Sauce	2
Spices	30
Ketchup	2
Mustard	3
Misc. Condiment/Sauces	5
Cooking & Salad Oil	13
Salad Dressings	6
Olives/Pickles	4
Mayonnaise	7
Rice	3
Breading & Stuffing	3
Instant Potatoes	3
Pasta	9
Grated Cheese	2
Tomato/Spaghetti Sauces	11
Syrup/Honey	6
Jam/Jelly	2
Peanut Butter	2
Chocolate Syrup	1
Dry Milk	2
Coffee	11
Coffee Creamers/Filters	6
Cocoa	4
Soda	10
Snacks (Chips etc.)	27
Dishwashing Detergent/Compounds	5
Laundry Detergents/Supplies	11
Household Cleaners	23
Sponges/Steel Wool	7
Personal Soap	6
Facial Tissues	2
Paper Bags	2
Paper/Plastic Plates & Cups	14
Foil & Plastic Wraps	9
Dog Food	24
Cat Food/Litter	3
Light Bulbs	5
Oral Hygiene Products	7
Shampoo and Hair Care	10
Diet Preparations	4
First Aid Products	2
Vitamins	8
Analgesics	3
Cough/Cold Medications	5
Skin Care	10
Antacids	3
Deodorants	3
Feminine Hygiene Products	4
Total (approximately)	800

**Based on an informal count of SKU's displayed at the Price Club (N.Haven, Ct.) on December 5, 1991. Excludes General*

another form of outside competition until it begins to eat the supermarket's lunch or its customers, the way it did with the convenience store?

UFO: I think you've got it.

SB: We also hear that suppliers are providing all sorts of other advantages. We hear about special distribution centers and breakdown centers where product is provided at wholesale cost.

UFO: Could be.

SB: We hear that special consignment deals and special terms of sale are made to the clubs so that the net effect is no cost of inventory.

UFO: You mean terms that are not being offered to the supermarket operators?

SB: Yes.

UFO: You mentioned that before. I do recall the late Herb Brody of Wakefern and Pathmark fame speaking of such things, many years ago. Money management I believe the B-schools call it. I am sure that McKinsey will find out all about that, don't you think?

SB: But if special terms of sale and services are offered to one class of trade and not to another selling the same goods in the same marketplace, isn't that an ipso facto illegality? If I can show that my costs do not permit me to compete, isn't that proof in itself?

UFO: Maybe. But suppose the pack is different? Suppose they say that you, as a supermarket operator, can't handle 55-lb. bags of dog food, or 24-oz. jars of mustard, or a three-pack of canned sardines, or a 64-oz. jar of peanut butter?

SB: How about a gallon of milk or a dozen–and–half eggs?

UFO: You're quibbling. Those are traffic builders.

SB: They sure are. Why aren't the same packs being offered to the supermarkets at

tions invite a wide cross-section of local consumers into the club, most of whom will only be purchasing for their own home use.

Although the shoppers interviewed gave assurance that the club could never replace the supermarket, they acknowledged buying items in bulk quantities from the clubs that would represent lost sales for their supermarkets in subsequent visits there, because of the low prices. And of course, they tended to pick up additional supermarket items in normal quantities while there.

The average transaction reported by our shoppers at BJ's was $177, while the average tally at Price Club was $144. A third of the BJ's shoppers and 16 percent of those at the Price Club reported that they generally spent over $200.

More important is the amount spent on food, grocery and HBA products. The BJ's shoppers reported spending an average of $131 on supermarket items at the club, while the average was $105 at the Price Club.

But even though the club expenditures for supermarket products are high, the supermarket is cushioned from the full impact of the club by two important factors. The first is the level of convenience and range of products they provide to their customers. Both clubs we studied offer between 800 - 1,200 SKUs of food, other grocery and HBA items, compared with the 25,000 available in most competing supermarkets.

Moreover, the supermarket still is the choice for meat, dairy, produce and bakery items. Even though the clubs, especially BJ's and Costco, offer these categories, they still can't match the supermarket for variety and convenience.

Myth: *The clubs offer mostly foodservice or commercial sizes.*

The fact is that we saw relatively few true foodservice or commercial-size packages of food or household supplies. Almost all items are within the traditional range of sizes sold by supermar-

North Haven Vicinity

Price Comparisons* DECEMBER 14, 1991

Product	Price Club	Super Stop N Shop	Pathmark
Oranges (per orange)	$0.18	$0.25	$0.23
Cheerios (oz.)	0.15	0.20	0.23
Wonder Bread (oz.)	0.06	0.10	0.07
Thomas' English Muffins (oz.)	0.11	0.14	0.06
Hebrew National Franks (frank)	0.36	0.43	0.43
Canned Ham (lb.)	2.20	4.33	4.33
Bacon (lb.)	1.57	1.49	1.99
Bulk or Link Sausage (oz.)	0.15	0.20	0.21
Spaghetti (lb.)	0.46	0.55	0.59
Spaghetti Sauce (oz.)	0.04	0.06	0.07
American Cheese Singles (oz.)	0.15	0.21	0.22
Cheddar Cheese (oz.)	0.12	0.23	0.18
Milk (1/2 gal.)	0.93	1.20	1.39
Margarine (lb.)	0.60	1.79	1.79
Butter (8 oz.)	0.89	0.69	1.09
Eggs (per egg)	0.14	0.10	0.11
Tropicana Orange Juice, refrigerated (96 oz.)	3.69	4.15	4.29
Orange Juice, frozen (oz.)	0.09	0.12	0.05
Stouffers Lasagna, frozen (oz.)	0.21	0.24	0.17
Campbell's Tomato Soup (10 3/4 oz. can)	0.55	0.40	0.65
Skippy's Peanut Butter (12 oz.)	1.67	2.19	2.19
Welch's Grape Jelly (oz.)	0.04	0.03	0.08
Hellmann's Mayonnaise (48 oz.)	3.49	3.28	3.59
Heinz Ketchup (oz.)	0.04	0.05	0.07
Barbecue Sauce (oz.)	0.06	0.12	0.09
M&Ms (lb.)	1.83	2.99	2.99
Oreos (oz.)	0.11	0.16	0.16
Doritos (oz.)	0.14	0.18	0.18
Maxwell House Coffee (oz.)	0.15	0.16	0.12
Sugar (5 lbs.)	1.77	1.99	2.19
Tide, powder (oz.)	0.23	0.10	0.06
Tide, liquid (1/2 gal.)	3.47	3.99	2.89
Bounce Fabric Softener (sheet)	0.04	0.13	0.32
Cascade Dishwashing Powder (oz.)	0.04	0.07	0.06
Paper Towels (ft.)	0.05	0.02	0.01
Plastic Wrap (ft.)	0.01	0.02	0.01
Reynolds Aluminum Foil (ft.)	0.02	0.02	0.02
Purina Dog Chow (lb.)	0.32	0.44	0.44
Purina Cat Chow (lb.)	0.45	1.11	1.14
Cat Litter (lb.)	0.48	0.33	0.17
Maxi Shields (24 ct.)	2.19	2.99	2.99
Toothpaste (oz.)	0.24	0.36	0.39
Advil (per tablet)	0.04	0.15	0.15
Pert Plus Shampoo (oz.)	0.18	0.28	0.27
Disposable Diapers (per diaper)	0.28	0.45	0.20
Secret Solid Deodorant (2.7 oz.)	2.46	3.99	3.99
Listerine Mouthwash (oz.)	0.10	0.10	0.19
Scope Mouthwash (oz.)	0.11	0.18	0.27
TOTAL	$32.66	$42.76	$43.38

*Price comparisons are based on products carried by each club and the 2 supermarkets that it is compared to. Since each club carries different products and brands, they cannot be directly compared to each other, or the supermarkets used in the comparisons to the other club.

Since the clubs sell mostly multi-pack items that are not carried by the supermarkets, most items are compared based on the unit costs. These are expressed in either ounces, pounds, or by piece counts. The unit costs of the items in the supermarkets were derived by using the size of the supermarket package of the product that was closest to the size of the club product. Wherever the club and the supermarket sold the same size package (non multi-pack), the price of the whole package was used in the comparisons. BJ's sold more of the products in the same size packages as the supermarkets, therefore more whole packages and fewer unit costs were used in its comparisons, which is why the totals are much higher for the BJ's comparisons.

Fairfield, CT

Price Comparisons* DECEMBER 15, 1991

Product	BJ's	Stop N Shop	Grand Union
Lettuce (head)	$ 1.00	$ 0.99	$ 0.99
Bananas (lb.)	0.40	0.59	0.59
Potatoes (lb.)	0.30	0.36	0.34
Corn Flakes (oz.)	0.09	0.11	0.11
Cheerios (oz.)	0.17	0.22	0.19
Wonder Bread (22 oz. loaf)	1.11	1.59	1.59
Thomas' English Muffins (48 oz.)	2.48	2.99	2.99
Hebrew National Franks (oz.)	0.08	0.25	0.25
Krakus Canned Ham (lb.)	3.82	4.33	4.33
Bacon (lb.)	1.39	1.99	1.89
Perdue Chicken, whole (lb.)	1.30	1.31	1.29
Bulk or Link Sausage (oz.)	0.13	0.21	0.20
Sirloin Steak (lb.)	0.94	6.19	6.48
Bumble Bee Tuna (6 1/8 oz. can)	1.49	0.99	1.17
Spaghetti (lb.)	0.55	0.59	0.59
Ragu Spaghetti Sauce (oz.)	0.04	0.07	0.07
American Cheese (lb.)	1.74	3.49	3.29
Cheddar Cheese (lb.)	2.69	2.89	2.89
Milk (1/2 gal.)	1.00	1.39	1.39
Fleishmann's Margarine (lb.)	1.12	1.79	1.89
Butter (8 oz.)	0.67	1.09	1.19
Eggs (per egg)	0.07	0.11	0.11
Tropicana Orange Juice, refrigerated (oz.)	0.03	0.04	0.05
Orange Juice, frozen (oz.)	0.06	0.07	0.07
Corn, frozen (oz.)	0.09	0.10	0.10
Stouffer's Lasagna, frozen (oz.)	0.15	0.17	0.17
Elio's Pizza, frozen (24 oz.)	2.14	3.69	3.79
Green Giant Peas, can (15 oz.)	0.48	0.79	0.79
Campbell's Tomato Soup (oz.)	0.03	0.06	0.05
Skippy's Peanut Butter (oz.)	0.10	0.18	0.14
Welch's Grape Jelly (oz.)	0.04	0.08	0.08
Hellmann's Mayonnaise (48 oz.)	3.55	3.55	3.49
Heinz Ketchup (oz.)	0.05	0.07	0.07
Hunts Barbecue Sauce (oz.)	0.04	0.09	0.09
M&Ms (lb.)	1.86	2.99	2.99
Oreos (oz.)	0.12	0.16	0.16
Lays Potato Chips (oz.)	0.13	0.23	0.23
Doritos (oz.)	0.15	0.18	0.18
Pepsi (2 ltr.)	1.12	1.12	1.12
Diet Coke (2 ltr.)	1.10	1.19	1.19
Maxwell House Coffee (oz.)	0.13	0.12	0.20
Lipton Tea (per tea bag)	0.07	0.04	0.03
Sugar (5 lbs.)	1.64	2.09	2.29
Tide, powder (oz.)	0.07	0.06	0.07
Tide, liquid (gal.)	6.75	5.69	5.49
Bounce Fabric Softener (sheet)	0.05	0.07	0.06
Cascade Dishwashing Powder (oz.)	0.04	0.06	0.06
Paper Towels (68.7 ft.)	0.47	0.75	0.65
Charmin Toilet Paper (roll)	0.23	0.27	0.40
Reynolds Aluminum Foil (100 ft.)	3.00	2.40	2.40
Dog Chow (lb.)	0.31	0.50	0.46
Dry Cat Food (lb.)	0.50	1.00	1.14
Tidy Cat 3 Cat Litter (lb.)	0.14	0.17	0.24
Stayfree Maxi Shields (24 ct.)	2.00	2.99	2.99
Crest Toothpaste (oz.)	0.26	0.36	0.39
Advil (per tablet)	0.04	0.15	0.15
Pert Plus Shampoo (oz.)	0.18	0.12	0.28
Pampers (per diaper)	0.28	0.20	0.20
Secret Solid Deodorant (2.7 oz.)	2.60	3.99	3.99
Listerine Mouthwash (oz.)	0.10	0.24	0.24
Scope Mouthwash (oz.)	0.11	0.22	0.27
Gillette Trac II (per razor)	0.43	0.72	0.72
Marlboro Cigarettes (10 pack)	19.22	19.59	20.25
TOTAL	$73.83	$92.09	$93.55

IMPACT OF CLUBS

Price Club has not, as yet, moved as deeply into grocery lines as other clubs, nor are price differentials as deep.

Can supermarkets compete? Of course they can, with more variety and with the same items week after week.

the same cost? Let them decide.

UFO: How do you know what the cost is to the clubs?

SB: The supermarket knows what the cost is to it, and knows whether or not it can sell the same items at the same price as the clubs.

UFO: Is it a bargain for the consumer?

SB: Of course it is.

UFO: And do you expect the Federal Trade Commission to prevent the consumer from getting a bargain?

SB: Let's suppose that the manufacturers make the same packs and terms available to the supermarkets as they do to the clubs. Can the supermarkets compete?

UFO: Of course they can.

SB: How?

UFO: Let's suppose that the clubs have 1,000 or even 1,200 SKUs of food and groceries that make sense to the consumer. The supermarket has 20,000 or 25,000 items and all sorts of services. What's more, the supermarket has variety, and has the same items week after week.

How many of those 1,200 items would you say are really bargains? Would you say half? Probably not more than 450 that anybody can remember the prices on. (If you can't remember the price, you don't know whether it is a bargain or not.) These are probably the items that you traditionally mark down in your ads. You probably wouldn't have to go much deeper to meet the club.

All the supermarket operator has to do is go out and shop the club in his market. You, as a supermarket operator, have an awful lot of items and categories where a few points of gross margin will get back the markdowns. You just have to do a little work.

SB: Are you saying that there is nothing inherently different about the clubs that gives them an edge? We hear that they have refined their costs, their operations, while the supers have allowed their grosses to get out of line.

UFO: There is always some of that. Whenever you keep adding costs, labor and services and try to pass all the increases on to the consumer, there is always somebody to remind you what business you are in. There is always that danger.

But I repeat: There are no mysteries. There is always the temptation to throw open the doors of the warehouse and to try to eliminate the stores. Wholesalers have tried it. There are already markets where the clubs do not do well. Take Chicago. Cub did not do well in Chicago. Auchan did not do well in Chicago. And most of the clubs do not seem to be doing well in Chicago. Chicago should be investigated. Perhaps there is something basic for the supermarkets to learn from Chicago.

SB: So you're saying that all the supermarket operator has to do is do what he does best. Is that it? That the club doesn't represent a new form of retailing that is going to hurt his future?

UFO: You have to pay attention to every form of retailing that competes for grocery dollars. But it can be done. The 24-hour, seven-day-a week supermarket eventually took care of the convenience store, with the help of the over-arrogance and the over-building of the convenience store industry.

SB: Could it be that the manufacturers are sending the conventional supermarket operators a lesson about slotting allowances and entrance fees in their dealings with clubs?

UFO: It doesn't have to be that deliberate or that conscious. It is natural to move toward alternative methods of selling product if it looks attractive enough. The clubs can move big quantities of some products at low cost. The tickets are high, which helps the clubs and the manufacturers.

SB: Isn't it unfair to the supermarkets who stock thousands and thousands of items regularly—slow movers as well as fast movers? Isn't this "class of trade" argument phony? The manufacturers say this is new business. Isn't this unfair business?

UFO: It might seem so, but that's life. And that's business. Are the clubs beginning to stock the same items regularly? Not so many "ins" and "outs"?

SB: It seems so.

UFO: Then either the prices are not as hot as you think they are across the board, or something else is going on. Perhaps what is needed is some in-depth pricing analysis at the store—er, ... warehouse .. the club.

SB: That's just what we did in the pages that follow.

CLUB SHOPPERS

kets, although many were at the larger end of the size range.

Virtually all the dry grocery items, both food and nonfood, were sold in multi-packs. In many cases these multi-packs simply consisted of two or three consumer-sized bottles, cans or boxes of an item over–wrapped.

It would appear that the container sizes of most of the products were too small for foodservice use, and the over–wrapped multi-packs would be inappropriate for smaller retailers to break up for resale—they would be more inclined to buy by the case. Notable exceptions were many of the produce items and some of the frozen prepared foods, which were in fact geared to a small foodservice operation.

Myth: *Consumers who purchase food at clubs usually have large families, and are attracted to the bulk quantities.*

The overwhelming majority of shoppers interviewed at the two clubs did not have large families. The average household of these shoppers included three or four people. There were twice as many two-person households represented as there were five– or six-member households.

Sheer price is, by far, the reason given most frequently by shoppers for patronizing the clubs. While some mentioned the convenience of buying in bulk, others consider bulk purchasing an inconvenience.

Are the clubs really cheaper? We priced some of the standard grocery items at BJ's, Price Club and two supermarket competitors of each. Since both clubs did not carry the same items and brands, their prices are not directly comparable to one another.

Since the club packs tended to be larger than package sizes in the supermarkets, we generally compared prices on a unit cost basis. Whenever identical package sizes were encountered, we used full retail price for the comparison.

We found prices at the clubs were considerably lower than those of their competing supermarkets. BJ's was about 26 percent below the average for Stop & Shop and Grand Union, while Price Club was 31 percent less expensive than Super Stop & Shop and Pathmark, significant in that the latter two chains are known for sharp pricing.

But, even when faced with a successful club such as the two we visited, the supermarket operator can fight back. Many have begun to sell more bulk items, especially in the paper goods, pet foods and dry grocery aisles.

A large chain or grocery wholesaler should have enough clout with the manufacturer to demand the same treatment that the clubs may be receiving. Price Company, with its current 73 U.S. and 12 Canadian units, may be the biggest volume mover among the clubs ... but surely a large supermarket operator can offer the manufacturer the same kind of product movement.

If there is one piece of advice offered by retailers we've talked to, it is "don't panic." Take the clubs seriously, but remember there is a lot more competition out there than just the clubs, most of it more threatening.